



Office of Inspector General U.S. Small Business Administration

July 2003 Update

Business Loan Programs

Georgia Vending Services Company President Sentenced. The president of a vending services company in Georgia was sentenced on July 11, 2003, to 18 months incarceration, 3 years probation, 300 hours of community service, \$350,000 restitution, and a \$250 assessment fee. The sentence was the result of a guilty plea to one count of **making material false statements** and one count of **bankruptcy fraud**. The charges originated in an indictment alleging that he failed to disclose his criminal history on an SBA Form 912 submitted to the financial institution in an application for a \$500,000 SBA-guaranteed loan in 1998. The defendant later testified in a Bankruptcy hearing that the company had no contracts, no accounts receivable, and had not sold any equipment or contracts in the past 12 months, when in fact, it had sold numerous vending machines and accounts and was, at the time of bankruptcy, receiving undisclosed payments for the accounts and machines sold. This investigation was initiated based on a referral from the financial institution and is now closed.

Wyoming Sporting Goods Store Owner Charged with Making a False Statement and Wire Fraud. The owner of a sporting goods store in Laramie, Wyoming, was indicted by a Federal Grand Jury in Casper, Wyoming, on July 23, 2003. He was charged with one count of **making a false statement** to SBA and one count of **wire fraud**. The OIG joint investigation with the Federal Bureau of Investigations (FBI) determined that

the defendant submitted two false personal financial statements to the bank in order to obtain two separate SBA-guaranteed loans totaling \$250,000. The defendant, who was 21 years old at the time, failed to disclose on his financial statements four additional debts totaling approximately \$312,000. The investigation also disclosed that he faxed several loan documents in furtherance of his scheme to defraud SBA and the bank. The case was initiated based on a referral from the SBA Wyoming District Office and FBI.

Small Business Investment Companies

OIG Issues Audit Report on Small Business Investment Company (SBIC) Program Oversight. OIG issued an audit report on SBIC program oversight on July 1, 2003, that discusses SBA's ability to oversee the program and limit risk due to forbearance rules and outdated procedures of the participating securities program. The forbearance rules used unsupported decision points, reduced SBA's potential for recovery of federal funds invested, and resulted in unnecessary prioritized payments. Additionally, existing guidance did not:

1. Address the potential for recovery in the Division's financial analysis;
2. Ensure the consistent implementation of restrictive operations;
3. Ensure the consistent application of the forbearance rules; and

4. Provide a systematic approach for transferring SBICs to liquidation.

As a result, unnecessary costs have been, and will continue to be, incurred unless corrective action is implemented. The following recommendations made to the Associate Administrator for the Investment Division address each of these weaknesses.

1. Provide documented analysis justifying the need for the concept of forbearance, forbearance periods, and capital impairment percentages.
2. Obtain a written opinion from the Office of General Counsel concerning whether SBICs with participating securities can be liquidated using receiverships due to a condition of capital impairment.
3. Revise SOP 10 06, Oversight and Regulation of SBICs, to ensure it includes requirements to:
 - a. Perform and document quarterly risk assessments for capital impaired SBICs;
 - b. Include an analysis of potential for repayment of outstanding leverage in its risk assessments;
 - c. Provide a recommended course of action in its risk assessments;
 - d. Implement restrictive operations consistently;
 - e. Implement the forbearance regulations consistently; and
 - f. Determine what criteria should be used to recommend an SBIC transferred to liquidation.
4. Revise SOP 10 06 to ensure that the implementation of restrictive operations addresses:

- a. Appropriate levels of impairment requiring restrictive operations;
- b. Time periods SBICs should remain in restrictive operations;
- c. Appropriateness of remedies or combination of remedies that should be used and under what circumstances; and
- d. Whether forbearance regulations preclude the application of restrictive operations.

Final Action Completed for Recommendation to Remove Ineligible HUBZone Companies from the Program. OIG conducted an audit to assess the eligibility of 15 HUBZone companies and recommended that the Agency either decertify two companies found ineligible or ensure that they are brought into compliance with eligibility requirements. The Agency ultimately decertified the two companies and removed them from the list of qualified HUBZone small business concerns on SBA's website.

Agency Management

OIG Issues Audit Report on SBA's Compliance with Joint Financial Management Improvement Program – Property Management System Requirements. OIG issued an audit of the Agency's Compliance with Joint Financial Management Improvement Program – Property Management System Requirements on July 23, 2003. The objective of the audit was to assess SBA's compliance with applicable Federal requirements including the Joint Financial Management Improvement Program's *Property Management Systems Requirements*. The audit disclosed the following:

1. SBA's two property management systems, Fixed Asset Accounting System (FAAS) and Administrative Accounting Property, operate independently of one another without interfacing. Additionally, the FAAS system does not interface with SBA's core financial system, Joint Accounting and Administrative Management System, beyond the level of

recording the cost of property at the time of acquisition.

2. SBA was not fully recording necessary property information in FAAS. This occurred even though SBA's FAAS is capable of capturing detailed property information including: acquisition cost, description, acquisition date, estimated life, and depreciation. As a result, 59,475, or 84 percent, of 70,962 FAAS property records did not include associated costs and 50,043, or 71 percent of FAAS property records had default acquisition dates.
3. The limits on capitalized property, including internal use software, have been increased twice without adjusting these limits in SBA's Standard Operating Procedures 20 13 3 – *Capitalized Property Accounting Program*. The limits were raised from \$5,000 to \$50,000, and then further raised to \$250,000 with depreciation over 3 years for internal use software, an increase of 5,000 percent. SBA officials changed the capitalization threshold for both tangible property and internal use software property using internal decision documents.
4. The FAAS system had a number of operational control deficiencies. A single accountable property officer in the Office of Administrative Services had Master User access to the FAAS system. This individual had full read, write, edit, and delete capabilities for all property records. While this access was determined reasonable for administrative purposes, there was no oversight of this function.

OIG made five recommendations to correct the deficiencies identified in the report. The Chief Financial Officer generally agreed with two recommendations addressed to him. The Assistant Administrator for Administration agreed with the three recommendations addressed to him.

Agency Completes Four Final Actions to Enhance Information Systems Control. In audit reports issued in 2001, and 2002, OIG recommended that the Agency clearly define and document roles and responsibilities as they relate to notifying security administrators of changes to SBA employee and contractor employment status, identify sensitive positions and obtain confidentiality and conflict-of-interest statements. The Agency issued guidance on the procedures for terminating employee and contractor access to SBA's computer systems as soon as they are separated. SBA also issued guidance on information technology computer security rules of behavior and required all users of SBA's systems to sign a Rules of Behavior statement. OCIO developed the Intrusion Detection System, that outlines event reporting and chain of escalation procedures as well as relevant personnel to be contacted. OCIO has modified the loan accounting system password administration to enhance security and enable the administrator of the system to reset passwords. In the 2003 audit report, OIG recommended that OCFO apply all patches necessary to bring JAAMs up to the current patch version as recommended by the vendor. CFO currently receives weekly reports of Oracle's latest patch releases. With OCIO, OCFO categorizes the patches based on security issues and criticality and makes appropriate arrangements to run the patches.

Agency Completes Final Action to Improve Password Monitoring and Security for SBA General Support Systems. The Office of the Chief Information Officer (OCIO) notified OIG that it has developed and implemented procedures for monitoring passwords for SBA general support systems on a quarterly basis. OCIO is now using password cracker software to ensure password security.

Agency Completes Final Action on Two Recommendations Resulting from an Audit of SBA's Implementation of its Cyber-based Critical Information Protection Plan (CIPP). In an audit report on SBA's implementation of its cyber-based critical information protection plan (CIPP) OIG

recommended that OCIO ensure that it reports security incidents as required by the Memorandum of Understanding (MOU) between SBA and Fed CIRC. OCIO has changed its guidance to monthly reporting based on the MOU. Its original guidance of quarterly reporting was established before the MOU was signed. The second action taken was to provide a copy of the revised C&A accreditation statement that informs the system owner that he is responsible for all corrective actions and to create a risk mitigation and vulnerabilities tracking process description.

The activity Update is produced by SBA/OIG,
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OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments concerning this Update or other OIG publications. To obtain copies of such documents please contact:

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